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UNEMPLOYMENT INSURANCE IN THE 1980's:

A REVIEW OF ITS APPROPRIATE ROLE AND DESIGN

Employment and Immigration Canada  
July 12, 1979



## 1. INTRODUCTION

As originally conceived, unemployment insurance was designed to be based directly on the principles of a social insurance program. Thus, emphasis was given to limiting benefits to instances where there was an unforeseen and unavoidable risk of unemployment. In essence, coverage was limited to workers to whom this approach was applicable. Moreover, benefits were based directly on the concept of "insurable risk". This meant that there was a direct relationship between the extent of attachment to the labour market and the eligibility for and duration of entitlement to benefits.

During the period of some 30 years between 1940 and 1970, there was a de-emphasis on strict insurance principles and an increasing stress on other social and economic objectives. In particular, coverage was extended to workers in seasonal occupations where it could not be argued that the risk of unemployment was unforeseeable. It was quite the opposite: such contingencies were quite predictable as a recurrent yearly event.

In 1970, a new program design was put forward to make the program more relevant to the changed socio-economic conditions of the 1970's. This was embodied in the 1971 legislation. In part, this involved the establishment of a new relationship between insurance and non-insurance (income transfer) principles. For example, initial benefits were related to labour force attachment (insurance element) and extended benefits related to local unemployment conditions (income transfer element). As it turned out, a combination of the design features of the 1971 Act and the changing conditions in the economy and labour market, particularly high unemployment, gave greater weight to the income transfer aspects of the scheme. These circumstances led to a significant extension of the program and its cost as well as an increased proportion of total cost allocated to the government account.

Parallel with these developments came inevitably a greater concern about the impact of unemployment insurance on the labour market (particularly work incentives) and on the effect of the program on income stabilization and income redistribution.

Following 1971, a series of legislative amendments were introduced over several years to contain the expansion of the program, to redress the balance between insurance principles and income transfer considerations and to ensure a more positive effect on the labour market. Despite these amendments, fundamental concerns remain about the objectives and design of the program in the context of dramatically changing conditions in the society, economy and labour market. It is to these central concerns that the current review of the unemployment insurance program is addressed.

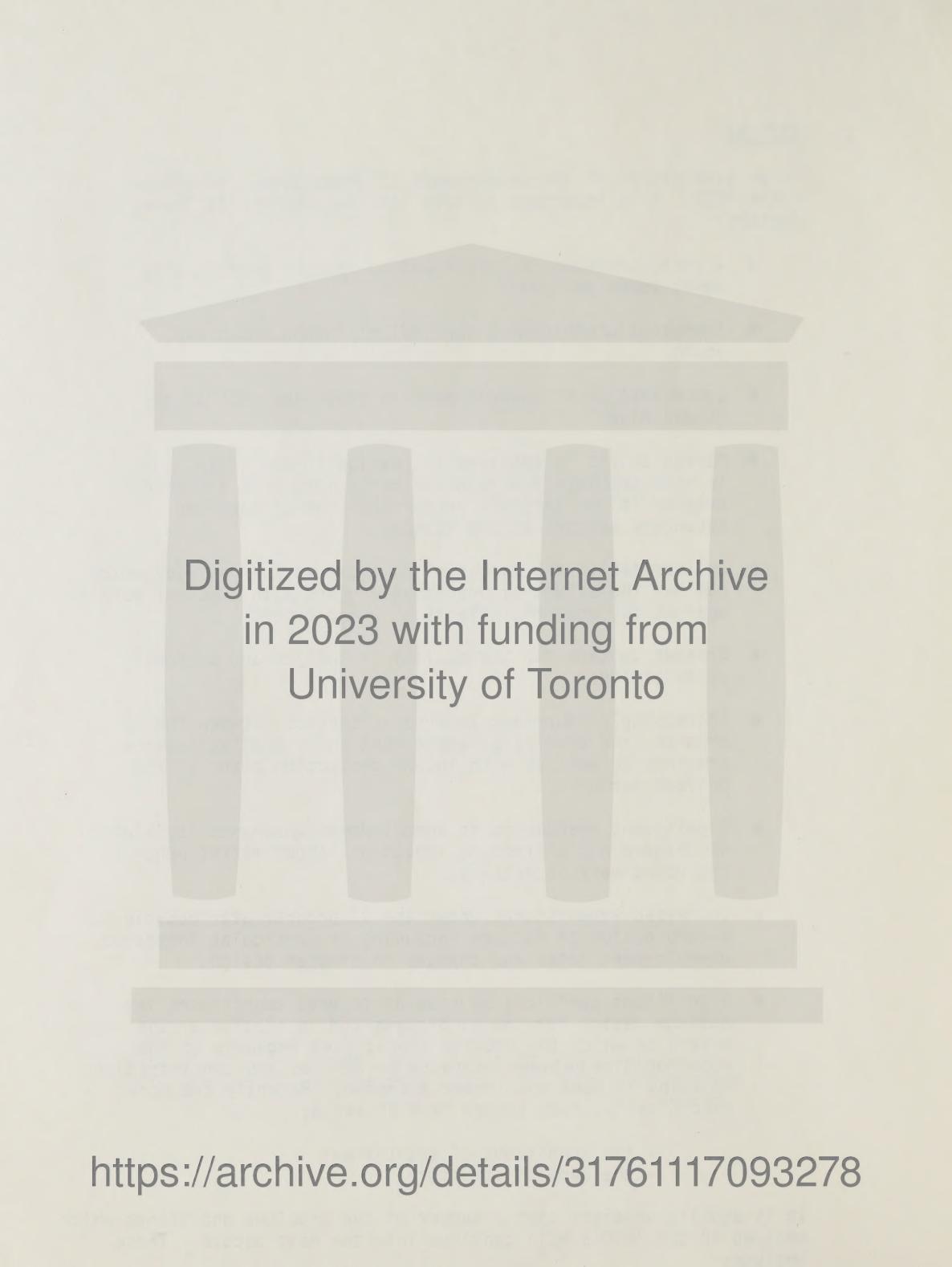


## 2. SETTING

In an examination of the development of unemployment insurance since 1970, it is important to take into account the following factors:

- A rapid increase in participation rates - particularly among women and youth.
- Increased unemployment particularly among women and youth.
- Concentration of unemployment in provinces east of the Ottawa River.
- Marked shifts in employment creation to the extent that in both absolute and relative terms more jobs are being created in the tertiary sector than the primary and secondary sectors of the economy.
- An increase in the number of multiple earner families which has had the effect of providing workers with a better buffer against the economic effects of unemployment.
- Greater concern for the quality of the job and personal satisfaction.
- Increasingly important interrelationships between the UI program, and provincial employment and social assistance programs as well as with income protection plans in the private sector.
- Significant amendments to Unemployment Insurance legislation which have had a profound impact on labour market behaviour including work incentives.
- Increased expenditures under the UI program attributable to a combination of factors including in particular increased unemployment rates and changes in program design.
- Significant conflicts of view as to what constitutes the optimum design for the UI program and in particular the extent to which the program should give emphasis to the accommodation between insurance principles and considerations relating to need and income transfer. Recently and more specifically, such issues have arisen as:
  - the conditions of entitlement
  - the benefit structure.

It is equally apparent that a number of the problems and trends which evolved in the 1970's will continue into the next decade. These include:



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- There will likely be a deceleration in the rate of increase in absolute terms of youths entering the labour market and an increase in the proportion of youths in the 20-24 group as opposed to the 15-19 group.
- The participation rates of women and youth will likely continue to increase and one result will be an increasing proportion of multi-earner families.
- Higher unemployment rates are expected in the first half of the 1980's than prevailed in the early 1970's.
- Employment growth is expected to continue at relatively high levels with a continuing shift toward service sector jobs.
- The increasing proportion of part-time work in relation to full-time work is likely to continue.
- A higher degree of international competition and technological change will result in the requirement for structural adjustments and have significant implications for the UI program.
- Structural changes in the economy will result in selective labour shortages and surpluses which in turn will give rise to trade-offs between the training of local labour and filling jobs through the issuance of employment or immigration visas.
- The trade-off between employment and leisure will likely take on greater significance and there is likely to be a stronger preference for more leisure; if this results in increased voluntary unemployment, it could have profound implications for the UI program.
- There is likely to be increased resistance to allocating more of the GNP to the country's social programs.
- The seasonality of employment, already a problem of particular significance in Canada will extend into the 1980's and will contribute to the phenomenon of repeat UI claims.
- The increasing concern with the avoidance of discrimination will have to be taken into account in any redesign of the UI program.

The introduction and more particularly the setting to this point serve to highlight:

- (a) the changing scope, impact and complexity of the UI program within the social security system and more generally in Canadian society;



- (b) the need to take into account the changing nature of the labour market in resolving particular UI issues, and
- (c) the resulting need to clarify the objectives of and principles underlying the program.

Any one of these emerging themes would, in itself, be sufficient to substantiate a review of the UI program with a view to determining how it should best respond to the environment of the 1980's.

### 3. TERMS OF REFERENCE FOR A REVIEW OF THE UI PROGRAM

#### (a) Preface:

A review of the UI program could take a variety of forms which, in the final analysis, would be based on the relative urgency of issues which have arisen and which affect the program and on the time and resources available for the exercise.

In the circumstances, the range of concerns expressed on the UI amendments contained in Bill C-14 both during and after Parliamentary consideration of that legislation, require that the first priority in this review involve an immediate re-examination of the comparative advantages and disadvantages of that Bill's provisions relating to the benefit rate, the entrance requirements for program repeaters and new entrants and re-entrants to the labour force, and other alternatives to those provisions. This is viewed as an important first step in a continuing fundamental review of the UI program.

At the same time, it is proposed that work commence over a more extended time span on many other issues which face the program. In view of dramatic changes such as the increase in multi-earner families, problems in seasonal employment, generally high unemployment rates and growth in program expenditures, it will be important to look at the program and the issues from various vantage points to determine, for example,

- the effectiveness of the program in providing adequate income protection;
- the effect of UI on income distribution between income classes and among regions;
- the appropriate balance between the insurance and non-insurance principles or components of the scheme;
- the interdependence and interrelationships between UI and other federal and provincial programs as well as those of the private sector.



In this context, it is proposed that the review be comprised of the following components:

- A. 1 Priority issues requiring extensive examination and early action.
- A. 2 Priority issues in which work already undertaken could be synthesized and reported on with a view to early action.
- B. 1 Issues requiring extensive examination and decision within the next eighteen months.
- B. 2 Issues requiring comprehensive examination over a longer time frame.

(b) Objectives:

The objective of the "A" components would be to review priority issues where early legislative action (as soon as possible in the new session of Parliament) would be feasible and desirable. Proposed amendments would be assessed in terms of the contribution they would make to program equity and cost effectiveness.

The objectives of the "B" components of the review would be as follows:

- (i) to examine issues arising from the current program and, based on this examination, formulate and analyse the advantages and disadvantages of a variety of options for changes as a basis for determining the most appropriate role and design of unemployment insurance for the 1980's;
- (ii) to determine the extent to which the UI program might be harmonized with other social security programs in Canada in the 1980's;
- (iii) to put forward for consideration recommendations for improving the impact of the UI program on the labour market; and
- (iv) to provide a streamlined and simplified Act and Regulations, and minimize requirements for further substantial amendments during the decade.



(c) The Basic Issues:

Issues to be examined in each component of the review have been grouped and summarized as follows:

A. 1 Priority issues requiring extensive examination and early action:

- (i) the treatment of those who voluntarily quit their jobs or who are fired for misconduct;
- (ii) the consideration of a benefit rate structure which would provide different levels of UI benefit for claimants with and without dependants;
- (iii) the desirability of retaining the new rules for program repeaters and new entrants and re-entrants to the labour force.

A. 2 Priority issues in which work undertaken could be synthesized and reported on with a view to early action:

- (i) the eligibility conditions for maternity benefits
- (ii) the insurability of public sector job creation programs.

B. 1 Issues requiring extensive examination and decision within the next eighteen months:

- (i) the appropriate objectives for the UI program in the 1980's\*;
- (ii) the future of the variable entrance requirement and related issues;
- (iii) the desirability of retaining the new rules for minimum insurability;
- (iv) the future of the special benefit provisions for self-employed fishermen;
- (v) the future of the developmental uses of UI funds\*.

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\* Additional information on the specific questions to be addressed in this connection is contained in Appendix "A".



B. 2 Issues requiring comprehensive examination over a longer time frame:

- (i) the examination of issues in coverage under the program, i.e. issues relating to which types of employment are insurable under the program (insurability) and which contingencies, for example sickness and maternity, are included as those for which benefits are payable under the program (contingency coverage)\*;
- (ii) the examination of the qualifying conditions and conditions of eligibility for benefit\*;
- (iii) the examination of the level and duration of benefits including in particular the implications of a family based insurance scheme\*;
- (iv) the examination of the financing provisions\*;
- (v) the streamlining and simplification of the Act and Regulations.

There are two other groups of issues which have important implications for all components of the review. The first of these relates to harmonization. Important relationships exist between UI and other public and private income protection schemes. Changes in the UI program often have implications for the programs and services of other levels of government. Similarly, provincial and municipal government initiatives can and do affect the UI program. Harmonization in this case will involve the strengthening of linkages between the UI and other social security programs and minimizing adverse implications resulting from changes or initiatives in those or other programs.

The second group of issues relates to administration, systems design and development and program delivery. In each component of the review and for each change proposed, it will be important to identify the administrative, systems and delivery considerations in order to contribute to the objectives of the review and harmonization and to minimize program complexity.

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\* Additional information on the specific questions to be addressed in this connection is contained in Appendix "A".



#### 4. THE REVIEW AND CONSULTATIVE PROCESS

Since the responsibility for the UI program is under federal jurisdiction, the responsibility for its review and the preparation of final recommendations rests with the federal government. Given the interfaces with provincial government employment and social security programs, it is essential that full account be taken of provincial views. It is equally important to take account of the views of the private sector, management, labour, other organizations and advisory bodies on the review and the future direction of the UI program.

More specifically, it is proposed that federal-provincial consultations should proceed as follows:

- The preparation of provincial government papers containing comments on the approach to the review and the substance of the issues raised including the rationale for changes which provinces might propose and their cost implications.
- The provinces would prepare and circulate papers before the end of August. This paper and provincial papers would form a basis of discussion of the issues involved by Deputy Ministers at a meeting in September. At that meeting, it is hoped that particular consideration would be given to the "A" component issues listed above. The views expressed by the provinces would be analysed and given full consideration in the preparation of recommendations for legislation with respect to the "A" components of the review.
- After the introduction into Parliament of legislation dealing with the "A" components, further discussion would then be held to determine the nature of subsequent consultations on the longer term dimensions of the review.

In the case of the private sector, labour, management, other interested organizations and advisory bodies, the following action is proposed:

- The federal paper on the approach to and issues in the review would be distributed to the Employment and Immigration Advisory Council, employer and employee organizations and other interested organizations with a request for views by the end of August. These inputs could be forwarded through the Employment and Immigration Advisory Council, the Canada Employment and Immigration Commission or directly to the Minister.



- Views from these groups would be sought on the overall approach to the review and in particular on the "A" components of the review. These would be given full consideration in preparation of recommendations for legislation relating to these components.
- Input into the legislative process would be in the usual manner i.e. by way of submitting briefs to the Parliamentary Committee.
- After the introduction into Parliament of legislation dealing with the "A" components, these groups would be encouraged to put forward their particular views on the longer term dimensions of the review. Meetings/consultations would be arranged as appropriate.

More specifically, the following timetable for the review and consultation is proposed:

<u>Action</u>	<u>Proposed Timetable or Deadline</u>
1. Production and Distribution of Federal Government Paper on the Review Outlining the Proposed Approach and Inviting Provincial, Private Sector, etc. Comments.	July 15, 1979
2. Receipt of Provincial Papers Outlining Views on UI	August 24, 1979
3. Receipt of Papers Outlining Views of Employment and Immigration Advisory Council, Employer and Employee Organizations and Other Interested Organizations	August 31, 1979
4. Examination of Provincial and Federal Papers at Federal-Provincial Meeting.	September 1979
5. Recommendations to Federal Ministers on "A" Components	September 30, 1979



<u>Action</u>	<u>Proposed Timetable or Deadline</u>
6. Framing and Introduction of Legislation on "A" Components.	October 1979
7. Parliamentary Consideration of "A" Components Legislation	October-December 1979
8. Proposed Implementation of "A" Components Legislation.	By proclamation as soon in 1980 as systems and administrative arrangements can be made.
9. Meetings/Consultations with Provinces, Employment and Immigration Advisory Council, Employer and Employee Organizations and Other Interested Organizations on "B" Components	January-August 1980.
10. Recommendations to Federal Ministers on "B" Components.	September 1980
11. Framing and Introduction of Legislation on "B" Components.	October 1980
12. Parliamentary Consideration of "B" Components Legislation *	October-December 1980
13. Proposed Implementation of "B" Components Legislation.	By proclamation as soon in 1981 as systems and administrative arrangements can be made.

\* Action will be required at this time to determine whether the Variable Entrance Requirement should lapse or be extended.



## ISSUES IN THE REVIEW OF THE UI PROGRAM

### Objectives of the Program

A key requirement of the review will be an examination of the objectives of the present and proposed program. In particular, the following must be ascertained:

- To what extent has the UI program achieved its twin objectives of providing adequate, short-term income replacement and facilitating the return of workers to more stable and rewarding employment?
- Are these objectives viewed as valid for the 1980's or should they be reformulated?
- If the objectives are to be reformulated, to what extent should they take account of factors such as productivity, job satisfaction, employability and actuarial soundness?
- Should a statement of objectives be incorporated into the legislation?

It is important to note in this connection that the balance between objectives as well as among the various design elements chosen will result in a major impact on the redistributive nature of the program and its macroeconomic effects. An assessment of these is therefore of central importance in the exercise.

### Coverage

Issues in coverage include those relating to which types of employment are insurable under the program (insurability) and which contingencies are included as ones for which benefits are payable under the program (contingency coverage).

The main questions which must be examined in the context of insurability are:

- Should the current concept of nearly universal coverage be reconsidered?
- Should the principle of compulsory coverage be re-confirmed?
- Are there types of employment or workers now covered which should not be, e.g. seasonal employment, or vice versa, e.g. self-employed workers; including in particular self-employed fishermen?
- Should higher levels of earnings be insured through an increase in the maximum insurable earnings?



- What unit of insurability is most appropriate - individual hours worked per week, earnings in calendar quarters, earnings of an individual, earnings on a family basis, etc.?
- Should Revenue Canada/Taxation continue to determine insurability and collect premiums?

Similarly, the main questions in contingency coverage are:

- Should the program continue to provide benefits in respect of the contingencies of unemployment brought about by sickness, maternity, retirement or the end of a fishing season?
- Are there other contingencies of a short or longer term nature which should be covered e.g. special adjustment benefits caused by industrial restructuring?

#### Qualifying Conditions and Eligibility

Issues under this heading relate to the requirements individuals must meet in order to qualify initially or continue to qualify for benefit under the program.

- What is the most appropriate definition of the interruption of earnings and should it be applied uniformly to all contingencies?
- Is there one appropriate and acceptable basic entrance requirement or should the entrance requirement continue to differ among contingencies, types of employment (and workers) covered, labour force experience and economic situations?
- Should the basic entrance requirement be qualified by additional conditions e.g. as has been established for new entrants, re-entrants and repeaters?
- Should the basic qualifying period remain at 52 weeks?
- Should the entrance requirement continue to be based on rates of unemployment?
- Should the conditions of eligibility for the voluntarily unemployed e.g. those who quit their jobs without just cause or who are fired for misconduct be changed?
- What should the main determinants of continuing eligibility be, should they vary and if so how?



### Benefit Structure

The principal issues relating to the benefit structure require an examination of the following questions:

- Is there evidence to suggest that the existing waiting period is too long or too short, should be waived or deferred in certain circumstances, or should be served each time unemployment occurs?
- Should the level of benefits vary e.g. by contingency, according to time on claim, according to individual or family circumstances, by virtue of benefits already drawn, by regional unemployment rates or local economic circumstances, etc., or differ for those with and without dependents?
- What considerations should govern the formula(e) for the level of benefits?
- What should be the maxima and minima in benefit levels and how often and on what basis should they be adjusted?
- How should benefit levels be adjusted to reflect receipt of other forms of remuneration and income protection?
- Should the duration of benefits vary e.g. by contingency, according to time on claim, by season, according to length of labour force attachment, with regional unemployment rates or local economic conditions, annual earnings, according to individual or family circumstances, with dependents, on the basis of funds available, etc.?
- What circumstances warrant extensions in benefit periods and entitlement e.g. as in the developmental uses of UI funds?

### Financing

The central questions here are:

- What should be the basis for and extent of private sector (i.e. employers and/or employees) and public sector involvement in the financing of the UI program be in the 1980's? More specifically, should financing be premium based, tax based or some combination thereof? Should government financing, for example, be restricted to payments relating to an extended benefit phase only? Alternatively, should the government also pay administrative costs?



- Should premiums continue to be deducted on a weekly basis but ultimately be adjusted to an annual basis?
- Should the experience rating of employers be reconsidered?

#### Developmental Uses of UI Funds

The key questions relating to these uses of UI funds are:

- Should we continue to attempt to enhance the effectiveness of the operation of the labour market through the measures recently adopted or perhaps others? If so, do we have the most appropriate design characteristics?
- Are UI funds, particularly the premium portion, an appropriate method of financing developmental programs? If they are appropriate, what changes if any should be made in the scope and nature of the programs financed and in program and design characteristics?

#### Harmonization

- In what ways can the linkages between UI income protection and other public and private income protection and transfer schemes and programs be more effectively harmonized?
- What are the implications of changes in the UI program on programs and services of other levels of government? Similarly, what are the implications of provincial and municipal initiatives on the UI programs? What steps can be taken to minimize adverse implications resulting from such changes or initiatives?

#### Administrative, Systems and Delivery Issues

- What improvements can be made in the administration, control and systems areas?
- What specific administrative and delivery considerations are associated with proposals to resolve each of the particular issues identified?





